GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3874
ANSWERED ON:22.08.2003
NORMS FOR NEW FINANCE COMPANY
SUNDER LAL TIWARI

Will the Minister of FINANCE be pleased to state:

(a) the rules for floating/running a finance company;

(b) the action the Government take against the finance company run against the rule;

(c) the action taken against such companies by the Government during the last three years alongwith the number of such companies;

(d) whether the government propose to make it mandatory to obtain the permission of the Reserve Bank of India before opening a Finance company; and

(e) if so, the details thereof ?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO V. ADSUL)

(a), (d) & (e) : - Reserve Bank of India (RBI) have reported that no Non-Banking Financial Company (NBFC) can commence the business of Non-Banking Financial Institution (NBFI) without obtaining a Certificate of Registration under Reserve Bank of India Act 1934. Besides, the minimum Net Owned Fund (NOF) of Rs. 25 lakh is required to be achieved for commencing the business of NBFC by the companies which were existing as on January 9, 1997, the applicant companies have to fulfil the eligibility criteria specified in the RBI Act for grant of Certificate of Registration by RBI. NBFCs which did not have the minimum NOF were given six years time to attain NOF of Rs. 25 lakh by January 9, 2003. The minimum Net Owned Fund for a new company is Rs. 2 crore from April 21, 1999.

(b) :- RBIhave further reported that in terms of RBI Act, 1934, if any person conducts business of a Non-Banking Financial Company without obtaining a certificate of registration, he is punishable with an imprisonment for a term which shall not be less than one year but which may extend to five years and with fine which shall be not less than one lakh rupees but which may extend to five lakh rupees.

(c):- The Reserve Bank has already initiated adverse action against errant NBFCs for various defaults and contraventions of the provisions of RBI Act. Reserve Bank has issued orders prohibiting NBFCs whose applications for certificate of registration have been rejected from accepting further deposits and from alienation of assets except for repayment of the deposits.

RBI has not granted extension of time to any company not having the requisite Net Owned Fund to function beyond 9.1.2003 and thus by operation of law, all such companies are precluded from functioning as NBFCs beyond that date. Since the ban was by operation of law, no separate list of such companies is maintained by RBI. RBI has rejectedapplications for Certificate of registration made by 23,357 companies mainly on the ground of non-fulfillment of Net Owned Fund norm.